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COMPUAGE INFOCOM LTD

29th February 2020

To,
The Corporate Services Dept.
BSE Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001.

National Stock Exchange of India Ltd.,
Exchange Plaza,
C-1, Block G, Bandra Kurla Complex,
Bandra (E),
Mumbai - 400 051.

Security Code: 532456
ISIN: INE070C01037

Symbol: COMPINFO

**Sub: Transcript of Analyst Call held on Monday, 17th February 2020
at 5.00 p.m. IST**

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, we enclose herewith the transcript of the tele-conference call with the analysts held on Monday, 17th February 2020 at 5.00 p.m. IST, to discuss the Operational and Financial performance for Q3 & 9 MFY20 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully
For Compuage Infocom Limited,

Ruchita Shah
Company Secretary



Place: Mumbai
Encl: As above



“Compuage Infocom Limited Q3 & 9 MFY20 Earnings Conference Call”

February 17, 2020



MANAGEMENT:

**MR. ATUL MEHTA - CHAIRMAN & MANAGING
DIRECTOR - COMPUAGE INFOCOM LIMITED**



COMPUAGE INFOCOM LTD

Compuage Infocom Limited
February 17, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Compuage Infocom Limited Q3 & 9 MFY2020 Earnings conference call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. The statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Mehta, Chairman & Managing Director, Compuage Infocom Limited. Thank you and over to you Mr. Mehta!

Atul Mehta: Good afternoon ladies and gentlemen. I would like to thank you all for being part of Compuage Infocom Limited’s Q3 and 9M FY2020 earnings conference call. Along with me today, we also have SGA, our Investor Relations Advisors.

Let me start with the industry highlights. The distribution landscape of IT industry is going through a challenging phase with overall slowdown in the economy due to liquidity crisis across the industry. We too, were partially impacted by the slowdown; however, higher contribution from our enterprise business, which is a higher margin contribution segment, led us to improve on our margins.

We are in the phase of building Compuage Version 2.0 where our focus is to transform from being a traditional IT distributor to a product, cloud and services-oriented organization which is an EBITDA accretive business leading to higher profitability in the bottom line. We are focusing on addition of more brands especially in the enterprise space along with increased distribution strength. We believe that this focussed approach will increase overall profitability.

I am very pleased to announce that we have recently signed up partnerships with two leading brand GOQii and Hewlett Packard (HP). With GOQii partnership, we will provide PAN India distribution service for GoQii, who is the leader in the range of healthcare and fitness devices.

In terms of partnership with HP, we have entered into a service agreement to provide aftermarket support for the printers, notebooks and this is for Mumbai market to begin with. We will later expand the scope of this assignment. These new partnerships are testimony of

our strong PAN India distribution channels complemented by our excellent service quality. We expect to sign more such partnerships going forward.

Now let me discuss the financial performance of the quarter and nine months. Revenue for Q3 FY2020 decreased by 7.1% year-over-year to Rs.974 Crores while for nine months FY2020 it decreased by 1% year-over-year to Rs.3189 Crores.

Gross profit for Q3 FY2020 stood almost flat year-over-year at Rs.39.5 Crores while for nine months FY20, ended up by 5.7% year-over-year to Rs.128.3 Crores. Gross profit margins expands by 26 basis points to 4.06% in Q3 FY2020 as compared to 3.8% in Q3 FY2019 and 25 basis points to 4.02% in nine months FY2020 from 3.77% in the same period last year as a result of higher revenue contribution from more profitable 'enterprise' business segment.

EBITDA for Q3 FY2020 stood at Rs.18.2 Crores, similar as last year same quarter and for nine months FY2020 it is up by 3.7% year-over-year to 60.9 Crores. EBITDA margin for Q3 FY2020 expanded by 13 basis points year-over-year to 1.87% and for nine months FY2020 it has expanded by 9 basis points year-over-year to 1.91%.

Other income has not been included in this EBITDA calculation. In case of our business which is pertinent and if included, the EBITDA goes up to over to 2.25%.

Profit after tax for Q3 FY2020 increased by 11.1% to Rs. 5.4 Crores year-over-year and for nine months FY2020 it has increased by 19.6% year-over-year to 20.1 Crores. PAT margins for Q3 FY2020 expanded by 9 basis points year-over-year to 0.56% and for nine months FY2020 by 11 basis points to 0.63%.

With this I shall now leave the floor open for Q&A. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin question and answer session. The first question is from the line of Mr. Rupesh Bafna from RB Securities. Please go ahead.

Rupesh Bafna: Thank you for the opportunity. Just wanted to understand on the working capital front, can you just break down upon what are your inventory days, debtor days, and creditor days?

Atul Mehta: Receivables are approximately 55 days, our inventory is approximately 25 days and our payables are about 45 days so the net working capital cycle is at about 35 days.

- Rupesh Bafna:** Okay 35 days, has it seen any improvement or has it increased over the last quarter, any color on that?
- Atul Mehta:** With lot of efforts, we have been able to maintain it at almost same level, so we have kind of been very, very tight and selective also on our business and that is why we have let go of some business and seen a drop because we did not want to take any kind of risk on that front, so we have been able to hold on to the working capital cycle.
- Rupesh Bafna:** Okay. That is really commendable. Continuing on that part considering the current economic scenario, just wanted to understand do we have any bad debts in the system or do we see any ECL provisioning that is there in the system?
- Atul Mehta:** We have been very conservative on the credit calls and we do not see any problems as far as the receivables are concerned. Having said that, since three years the Board has directed the company management to also secure our receivables by way of credit insurance which we have already been taking for the last three years and if at all there are any doubtful debts, we get the recovery from credit insurance which is of course, compensates 85% of it which is important that the bulk of it gets covered.
- Rupesh Bafna:** It compensates how much, 85%?
- Atul Mehta:** Yes, 85%, even there were to be a doubtful debt, that is of course a backup plan. We do not take credit call basis and we continue to be conservative and it is not a challenge as far as Compuage is concerned.
- Rupesh Bafna:** So lastly just taking upon that point, that you are talking it conservatively, I just wanted to understand what is the outlook on the topline front as well as the margins, and the bottomline in the coming couple of years, how do you see the business going ahead?
- Atul Mehta:** We are kind of working towards increasing our bottomline and therefore we are focusing a little more on our enterprise business segment and which has been visible from the last three quarters of the current financial year, so our approach will be to work towards enhancing the profitability of the company that is, as far as the profit goes. We are in the transition phase which will take us maybe another 6 to 12 months till we complete the entire process. We will not be able to and we do not want to project a particular percentage as such, but the plan is to continue working upwards as far as the topline goes, of course this year due to the transition, I would say we have gone a little slow on the growth. As far as the topline is concerned, there are two reasons, one is the transition and second is of course

the macroeconomic challenges and especially the liquidity challenges which are there in the industry where we have taken a conservative view, so once this situation improves then we will once again be back to the growth path which is at the moment a little difficult to predict because we do not know when the liquidity situation will really improve.

Rupesh Bafna: Sir, just to add upon a thing that you said about the margins, you are focused on improving the margins, so can we expect an uptake in the margin, say in the next two years or after two years maybe from what we are at the current level?

Atul Mehta: Definitely that is the whole objective and we are very confident of increasing the margin, that is what we are working towards in terms of product mix and in terms of services.

Rupesh Bafna: Can you, if possible, quantify how much margin expansion do you expect?

Atul Mehta: That is difficult. As I said we are in the transformation period, so what we are doing is even in our product mix, we have entered into the cloud product and services about three to four quarters back which is still in the nascent stage. It will take time for us to gather momentum, likewise, we are also focusing on our hardware services business which is also very profitable which also has to gain momentum. So, all this work in progress, but we are confident that margins are going to exceed. It is only that we are not putting down a number to it at this point of time.

Rupesh Bafna: Thank you so much for answering my question and all the best for the future.

Moderator: Thank you. The next question is from the line of Mr. Pankaj Jain from Mahavir Investment. Please go ahead.

Pankaj Jain: Thank you for the opportunity. Sir, my first question is relating to the top 5 revenue contributing brands to your company and if you can quantify in terms of percentage, what would be the percentage contribution?

Atul Mehta: Percentage contribution of?

Pankaj Jain: The top 5 revenue contributing brands.

Atul Mehta: We are not getting into brand breakup at this moment. I can give you indicative breakup of the five vertical that we have broken up the company into. The one is the traditional IT consumer business which is in the region of about 27% to 28%. Second is the IT enterprise business which is now upwards about 45% to 47%. Third is the mobility business where we

have mobile phones and mobile accessories - where we have the two premier brands Samsung and Apple with us which accounts for about 15% of our business. Fourth is the Cloud Services, which is the recent one, which in this year should not contribute more than 2%, but it is going to gain momentum with every passing year. Fifth is the Hardware Services Division which would contribute to about 2.5% to 3%, so this is the rough breakup of the way of divisions and there are several brands in our portfolio. Having said that, I can mention in terms of the top 6 or 7 brands within the company if I were to say, they are Asus, Apple, Cisco, Samsung, HP, Microsoft, these are top six to seven brands in our portfolio.

Pankaj Jain: Can we expect that these contribute more than 50% of the revenue? Is that a fair indication which you can give us?

Atul Mehta: That is right, it would contribute about 55% to 60%, approximately 60% of our revenue.

Pankaj Jain: Secondly, if you could just give me what is the gross debt number for December 2019 and if the average cost of debt is the one, which is on the books right now?

Atul Mehta: The gross debt as on December 31, 2019 was approximately Rupees 362 Crores and the cost of finance has definitely gone up in the last 12 months which is, I think, due to the situation known to everyone and the average cost of funds would be in the region of about 11% to 11.5%.

Pankaj Jain: Just to clarify the figures, the percentage breakup which you mentioned was for 9 months FY20 right?

Atul Mehta: Yes.

Pankaj Jain: Sir, if you could just give me some color if we are looking out for some equity fund raise or maybe some fund raise? Is there any option which you are considering in the near future?

Atul Mehta: That is still on the drawing board stage. We have not firmed up our plan so if you have seen in the last 12 months we are working towards growing and not growing on debt alone. We have been able to bring down our debt in the last 12 months to a fair bit. Having said that, as the growth momentum picks up, we will determine how you want to finance that and equity funding is going to be one of the major options that we will consider so that we have a balanced view in terms of funding the growth.

Pankaj Jain: Can we expect this in the next 18 odd months, maybe 18 to 24 months?

- Atul Mehta:** I will be able to share more realistically, maybe in the next quarter, when we will have a very clear plan for next year as well as indicative plan for FY2022, so maybe in the next quarter call, possibly we will have a more clearer picture, but that is, as far as the definite plan goes, but yes, we can expect something in the next financial year, is the thought process.
- Pankaj Jain:** Thanks a lot Sir. I will come back in the queue if I have any further questions.
- Moderator:** Thank you. The next question is from the line of Mr. Rohan Parekh, an individual investor. Please go ahead.
- Rohan Parekh:** Sir, we had plan to increase the turnover to 7000 Crores by 2021, which was outlined in 2018, so from probably 4500 Crores to 7000 Crores, just one quarter and a year left, so do you think it is achievable?
- Atul Mehta:** Yes, that is the aspiration which the company has and we have shared that in one of our calls but to answer your question, it is definitely not something that we are working towards because one, the whole scenario has changed in the last 18 months, primarily the liquidity challenges and under that scenario we did not want grow the business by taking longer credit calls and therefore we said, let us focus on restarting the business forward while topline is definitely important, but at this point of time, let us focus on healthy profitable business, which I think we have succeeded in doing in the last three quarters and we will continue on those lines. The plan for 7000 Crores definitely remains. It is a question of just waiting for the scenario to change and on that basis, we will rework as to by which year, we will make that one billion dollar of revenue and as you all know the current Coronavirus situation is also going to dampen, because China continues to be a big source of supply for every industry but more so for IT, mobility and electronics industry and therefore we do not know how badly the supplies are going to be affected in this quarter and when it will get improved, so to that extent we will just wait for situation to come back to normalcy and then rework on our plans and then we will make it happen.
- Rohan Parekh:** Because actually in the presentation, let me share, you have mentioned what you see three year target of 7000 Crores but the timeframe is not mentioned? The revised timeframe is not mentioned.
- Atul Mehta:** As I said, that revised timeframe is something we will re-work once economy and the whole industry comes back on track. When the times are so turbulent and challenging we do not want to make aggressive plans because if in the process, those plans get hurt

somewhere, it can affect the company. It is better to be cautious than sorry, that is the approach the company has taken.

Rohan Parekh: That is the right approach, but just to give us an idea, what would be your target by 2021, what would you be trying to achieve by 2021?

Atul Mehta: I would like to possibly share our thoughts, maybe in the next call, because at this moment, the situation is very fluid, you know what plans we have set forth in this quarter, we will really have to take it month on month for simple reason that we do not know how badly supplies are going to be affected and to that extent how much the business is going to be affected. I appreciate your query and not that I do not want to answer that, just give us a quarter and we will possibly be able to share our thoughts better.

Rohan Parekh: That would be great. Thank you so much.

Moderator: Thank you. The next question is from the line of Mr. Lucky Abbas an individual investor. Please go ahead.

Lucky Abbas: I should congratulate you on a stable performance in a bad market I would say. Atul Bhai, one question you answered about the Coronavirus situation. How much inventory you hold? How many months would you be comfortable from here on Sir? My second question is about the taxation. We are still in the old scheme of taxation right, and when would be shifting to the 25%? Between March 2019 and September 2019, has there been any equity expansion,? As in the investor presentation, the equity shows 28 Crores in September 2019 against March 2019.

Atul Mehta: Thank you Lucky. Firstly, this Coronavirus is something which hits us once in 10 years, either Corona or SARS or something of that nature and for which we do not carry higher inventory. As I mentioned to one of the participants, our inventory days as on December 31, 2019 was approximately 25 days and since margins are competitive we definitely plan on working tight as far as inventory is concerned. Secondly, coming to the question on taxation - the current year is already considering that because that taxation goes into effect in the current financial year and if you see the Q1 and Q2, Q1 was based on the earlier taxation and Q2 H1 results were based on the new taxation and therefore that had a significant increase because of the tax benefit being considered for both the quarters and thirdly, on equity, we had equity infusion in March 2019, thereafter we had no equity infusion, we had issued redeemable preference shares in the month of May 2019 which would have been rightly reflected.

- Lucky Abbas:** I think in the consolidated balance sheet, in the investor presentation, I think that redeemable preference is clubbed along with equity share capital?
- Atul Mehta:** While our standalone and consolidated are same because our subsidiary which is wholly owned subsidiary and has not been transacting anything for the last three years, so I do not think the equity would be a function of standalone and consolidated. This one specific query, I will just have to look into it.
- Lucky Abbas:** I think they have consolidated either the preference shares along with the equity shares in the investor presentation, specifically in the investor presentation and in the balance sheet but as of now, our equity stands at about 13 Crores to be paid up.
- Atul Mehta:** Our equity stands at about 13 Crores. I do not think there is any change in that so this investor presentation data we will just relook at it, if at all there is an error, we will just look into it and correct it.
- Lucky Abbas:** Thank you Atul Bhai.
- Moderator:** Thank you. Ladies and gentleman due to time constraints we take the last question from the line of Mr. Raj Joshi from Ace Securities. Please go ahead.
- Raj Joshi:** Thank you for the opportunity. I have only one question. We have mentioned in our press release about two new brands that you have tied agreement with. Could you please highlight the scale of the business opportunity available for it?
- Atul Mehta:** While we of course have signed up with the objective of increasing revenue and profitability, it is a new segment that we are getting into. First, I am answering the question related to GOQii. While GOQii has been doing well as brand in terms of online presence and we have signed up to carry them across India offline and the business is about to get started so we will get a more clearer picture while we have made plans and projections, we have submitted our detailed business plans to the company but it is only after the first six months we get a real fit of it as to how much we will really be able to do so and if it is something that you ask me, we are definitely looking at in a 2-year period crossing more than 3 digit number, but to get into specifics, possibly we will need six months of actual performance to know how much and how fast we can scale up the business. As far as HP Services, I do not think it requires too much of thinking because the products are being sold in large numbers because of our nationwide presence through 69 service centers across India and we will be expanding on the same. We have joined hands together so we also

want to see how the profitability goes, there is no question in terms of the revenues, but we want to experience it for ourselves and therefore we have started them towards January end in Mumbai as a test transaction for Compuage and once we are comfortable looking at the investments and returns that we get in one quarter, we will of course rapidly expand into that and from HP Services point of view, it is more bottomline driven business where topline is not that important, so I think that is for both these product lines.

Raj Joshi: Thank you.

Moderator: Thank you. We take the next question from the line of Mr. Lala Ram Singh from Vibrant Securities. Please go ahead. Mr. Singh, we request you to limit your questions to two please.

Lala Ram Singh: Good evening Sir. I have two questions. What has been the experience for us in terms of cost of borrowings? Has it increased? Number 2 - What is the scenario on the competition, have we seen some of the peers going out of the market because of the weak overall macro conditions?

Atul Mehta: Yes, cost of fund has definitely gone up from our existing institutions with whom we have been banking for some time and the borrowing rates have gone up and that has had an impact on our cost of funding and profitability to that extent and in terms of competition, I think there are not many players in this state of distribution and as we speak, I think it more or less remains at the same level. We are not seeing any players go out or anything of that kind happening.

Lala Ram Singh: How much would the cost of funding increase for us?

Atul Mehta: I think close to about 0.5% to 1% on an annualized basis.

Lala Ram Singh: Do we see that situation easing or still no short-term visibility of that softening?

Atul Mehta: We do not see the situation easing as we speak. I think the way we are taking conservative call and our call towards enhancing bottom line I think that is what possibly every industry, even institution is doing, so I think as of now, we are not seeing easing up liquidity or thereby cost of funds.

Lala Ram Singh: Is there any impact which we can see on the revenue because of Coronavirus? Is there a loss of production in all categories, any short-term negative impact?



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Atul Mehta: We will get to know that only as we progress, because yes, this is an industry which is highly dependent on imports, either components or SKD or finished goods for that matter of fact, and therefore, if it prolongs, I am sure we will see some impact. It is difficult to comment now because currently we have not seen the impact, but since China is a major vendor for all the major brands in the world, we really do not get to know what is the stock levels, how good are the stocks for, how many weeks and months, so I think we will get to know the situation maybe in the next two to four weeks, so it is difficult to comment what and how much the impact will be.

Lala Ram Singh: Thank you. All the best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Atul Mehta for closing comments.

Atul Mehta: Thank you all. To sum up, we are programming growth for the next version of Compuage and we believe that these more profitable segments along with brand addition and increased distribution strength will result in higher profitability over the next few years. I hope I have been able to answer most of your queries. We look forward to your participation in the next quarter. For any queries that you may have, you may contact our Investor Relations Advisors, SGA. Thank you once again for your participation.

Moderator: Thank you, Mr. Mehta. Ladies and gentlemen, on behalf of Compuage Infocom Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.